

A Work Project, presented as a part of the requirements for the award of Masters Degree in
Management from the NOVA – School of Business and Economics

EXPANSION PROCESS OF SKYPRO FOOTWEAR TO THE RUSSIAN MARKET

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January 2017

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Abstract:

The present work project focuses on the internationalization proposal for the Portuguese brand of corporate comfort footwear - *Skypro*, which operates in a niche market and targets the airline's employees - pilots and crews - to the Russian market. The project commences with the general overview of the enterprise, which competitive advantage is further presented in order to evaluate the resources available for the accomplishment of the internationalization. Moreover, the country of entry is studied and an in-depth analysis of the airline and footwear market is presented with the aim of the expansion opportunity to be identified. Afterwards, the most suitable mode of entry is chosen, based on the diagnosis of the target market and the characteristics of the company. Finally, financial scenarios are constructed and the conclusions and recommendations are lastly given.

Key words: Internationalization, niche market, comfort footwear, Skypro

I - Enterprise overview:

Abotoa S.A is a Portuguese small and medium enterprise created in 2004, as a family business, by the hand of its founder and CEO Jorge Pinto. Taking its first steps, the company started as a franchiser of *Lanidor's* stores in Lisbon, but rapidly shifted from clothes to corporate footwear market. In 2007, it engaged in a partnership with *Aerosoles*, creating *Aerosoles Pro* – an innovative brand of footwear directed to professionals. The company addressed its product to hospitals, hotels and airlines but the partnership didn't last long as the mother company went bankrupt. However, the experience in the market and the know-how of making footwear designed to provide long lasting comfort, took Abotoa S.A to the next level, and the company decided to focus on supplying the airline industry, soon signing a contract with the biggest Portuguese airline – *TAP*. This served as the first stone for the success of company's current ultimate proposition for its clients with the brand *Skypro* (*Our History*. 2016).

Hence, currently, *Skypro* operates in a niche market, offering the first in the world certified footwear for airline professionals – crews, flight attendants, pilots and also ground handlers. In 2015, the firm accomplished another major achievement winning the contest to supply, during four years, one of the biggest airlines in the Middle East – *Etihad Airways* (*Uniform Project Presentation, 2016*). Even though the company mainly focuses its efforts on the aviation sector, it also seeks to apply its experience and core competences to expand to the so called *latent industries*, the ones that make use of uniforms, such as cruisers, army and others.

Therefore, *Skypro*'s core unique proposition includes specialized footwear made of innocuous leather, using ambicork in order to control and stabilize the feet temperature during the flight and outside the aircraft. The footwear also owns anti-static and anti-skid properties which considerably increase its safety. Furthermore, it is alarm free - which significantly optimizes the security procedures and impact absorbing - which diminishes the negative effect on the organism (**see Exhibit 1**). The collection includes several different lines for both genders and all the products are manufactured in Portugal using local raw materials. Besides its core product, the whole company's portfolio includes the recently developed uniforms and also accessories, such as thermic shirts, underwear, gloves, belts, bags and others (*Skypro, 2016 Collection*).

The largest portion of *Abotoa*'s sales belongs to the B2B segment and the majority, around 90% of the volume, is traded on foreign markets, in particular in USA. In terms of B2C market, *Skypro* continue investing in a recently upgraded on-line store as a mean to attract and sell to individual buyers, however, this segment accounts for less than 4% of sales (**see Exhibit 2**).

In financial terms, *Abotoa* has been expanding steadily. From 2014 to 2015 the volume of business increased for 26% while the sales gross margin reached 40.5%, in contrast with the 37.92% in 2014. This growth was empowered by the expansion to new markets and consequent changes in company's organization structure. Thus, the number of employees has doubled

towards 2014 and new human resources were distributed by the different areas of the business. However, the company preserved an optimized corporate structure which promotes efficient decision making.

Corporate mission, vision, and strategic orientation:

In 2016, Abotoa prepared and implemented a rebranding strategy and now it shares a strong corporate mission encoded in its very slogan “*Feel the ultimate care*”. With the brand *Skypro*, it committed to carefully develop innovative products and provide excellent services in order to ensure the best performance of the airline professionals and care for their best comfort, well-being and health. This purpose is supported by the intrinsic values of the company which are shared among all the collaborators as the team works towards results and focuses on the goals of the company as the trigger for the excellence that lies in the core of each product.

The vision of the company in 2016, is to be the first choice among the aviation professionals and to be recognized as the supplier of the best product in the world. Hence, in order to accomplish it, for the current year, *Skypro* commits to:

- Be able to conquer, as clients, the biggest airlines worldwide;
- Find potential clients in the latent industries;
- Promote innovation in order to constantly improve the product;
- Further expand to international markets by engaging with new partners and specially Skypro LLC in order to penetrate the USA market;
- Develop a sustainable and recognizable brand;
- Make the first steps in the uniforms market;

This will allow the company to achieve several strategic goals:

- Consolidation of the brand as the best brand for the aviation professionals;
- Creation of a personalized distribution channel;

- Consolidation of notoriety of the brand based on strong values

Internationalization process:

Due to the relatively small size of the Portuguese airline market, dominated by TAP, Abotoa early identified the need for international expansion. Having the will to go abroad and the production capacity, the company has two different methods of new markets penetration. Hence, it either directly searches for new corporate clients abroad via negotiation, either establish partnerships with retailers in order to place the product for sale and attract new potential customers. Moreover, the company participates in a number of international fairs, such as *MICAM (Milan's Footwear Fair)*, *ITCA (International Travel Fair)* and *WTCE (World Travel Catering Expo)* where it demonstrates the product in order to reach the client directly as it was the case of a recently acquired client in Kazakhstan, *Air Astana*. Thus, along the years, the company quickly became supplier of various airlines all over the globe, such as *Finnair* (Finland), *Lufthansa* (Germany), *Virgin* (Australia), *Aigle Azur* (France), *Southwest* (USA), *Qatar Airways* (Qatar).

In 2013, *Skypro* received a three million investment from *EXPLORER Investments*, which was mostly canalized to intensify the internationalization process. The company decided to expand to the USA due to the market dimension and its specific conditions, propitious for the leveraging of company's potential. Hence, it invested in a totally owned subsidiary *Skypro LLC*, located in Atlanta, in order to reach individual American aviation professionals and capitalize on the B2C segment. The next step for the enterprise should be to focus and further expand in the American market, but also discover other potential markets such as, for instance, the Russian one. Nevertheless, before projecting the next step towards new markets, it is crucial to assess firm's resources readiness.

II – Competitive advantage

RBV of the company and VRIO framework

In order to assess Abotoa's competitive advantage, indispensable for a successful entrance in new markets, it is useful to draw a resource based analysis of the company. The unique bundle of resources that may be tangible or intangible should be used by the company in order to exploit external opportunities and promote dynamic optimization without acquiring new resources. In case of Abotoa, the resources are mainly intangible, and they come from the innovation and design capacity of the firm and the dedication to quality and detail of each product.

Having in mind a general picture, it is possible to say that Abotoa sustains a temporary competitive advantage (see **Exhibit 3 and Exhibit 4**) by operating in a very specific niche market in comparison to its main competitors and by having a unique bundle of technologies incorporated in its products. Observing in detail:

Skypro operates in Portugal, one among three countries which are renowned by the know-how of shoemaking: Italy, Spain and Portugal are worldwide leaders in shoe craft making which is crucial for Abotoa's core activity. The location also enables the firm to have direct access to high-quality raw core materials, such as leather as well as benefit from qualified human resources. This is linked to Abotoa's R&D skills, indispensable for the creation of the technological and innovative components of the footwear. This way, the in-house design and unique features of the product, rather exquisite and difficult to perfectly imitate, give Abotoa a temporary competitive advantage. Despite this, Skypro's technologies are vulnerable to be copied because the company does not possess any kind of patent, which represents an obvious threat. For this reason, the company strives to high quality control in every moment of production.

Furthermore, Skypro has an important network of institutional partners, such as CTCP (*Centro Tecnológico do Calçado de Portugal*) and CITEVE (*Centro Tecnológico das Indústrias Têxtil e do Vestuário de Portugal*), which have a special role in the settlement of the best chemical and physical parameters of all the products. APICCAPS (*Associação Portuguesa dos Industriais do Calçado, Componentes, Artigos de Pele e seus Sucedâneos*) is another significant organization that provides the company with information about national industry and external markets data. However, even though this kind of partnership is crucial, it is also easily replicable.

Nevertheless, in a medium long run, the firm will take advantage of the reputation and brand image that is being created. Abotoa is a supplier of innumerable clients all over the globe, and it currently holds several prizes such as “Etihad supplier of the year” (2016), “Winner of onboard Hospitality Awards” (2016) and “Award Winner Gapi” with the best shoes for aviation professionals (*Skypro, 2016 Collection*). This trust of the clients and the large international network are extremely valuable in order for the company to expand, however, also possible to be achieved by the competitors.

Finally, Abotoa engages in change management in order to better adapt to the dynamic conditions of the market and conduct the business. This is even more difficult to achieve since the company operates in both B2B and B2C segments and need to adjust itself permanently in order to provide the service for every client.

Industry mapping:

The industry mapping is one important tool in order to achieve better comprehension about the key players which operate in the market and that are both influencing and being influenced by Skypro’s activities.

Firstly, one must refer to multiple **suppliers**. Skypro outsources leather as primary raw material but also finished leather goods and clothes, since the company also commercializes underwear and it is starting to enter the uniforms segment. Beside this, it also outsources other components for the footwear in order to supply them to the final assembler. Hence, Skypro is highly dependent on the suppliers, and its control is limited since it needs to subcontract the manufacturers, which implicates waiting lines and reduced margins. Several processes of footwear assembly may require hand work, which requires additional suppliers contracted by the manufacturer.

In what respects to the **clients**, Skypro works with corporate and individual clients. The corporate ones mainly comprehend the airlines and the ground handling companies which provide the footwear to their employees. The majority of the clients is located out of the European Union and the most representative customer in 2016 is Etihad Airways, with more than €1 million in sales.

In what concerns to **competition**, Skypro runs against the players in two different segments – producers of comfort footwear (indirect) and producers of corporate footwear directed do aviation professionals (direct) – both in national and foreign markets. According to primary source data, there is only one enterprise in Portugal that may be considered as firm's direct competitor – Lavoro. However, Lavoro's product is designed as specialized safety footwear. In the external markets, there are other sellers of aviation footwear such as *Rosevelvet*, *Piccadilly*, *Ecoflex* and others. Furthermore, there are other comfort footwear brands that may function as substitutes for Skypro shoes. Among them, there are *Ecco*, *Hush Puppies*, *Ara*, *Geox*, *Aerosoles*, *Clark* and others. In the uniforms segment, *CrewOutfitters* (with 15% of uniform's market quota) is considered as a direct competitor, however, others, such as *Oberhofer* and *Armstrong Aviation Clothing* should also be considered.

As long as Skypro does not have a personal distribution channel, among company's **distributors** are several logistics companies such as DHL for B2B and B2C deliveries and TNT as a smaller scale distributor. For the USA market, it chooses UPS as the main deliveries company. Moreover, there are physical retail stores across the globe, such as *Pilot Shop Baneasa* in Bucharest or *Paolo Salloto* shop in Amsterdam, where the company places its product in order to make it available for individual customers.

Finally, there are several **institutional players** in the Skypro's industry cluster, such as APICCAPS, CITEVE, CTCP and ISEP (*Instituto Superior de Engenharia do Porto*) whose roles were previously discussed.

Value Chain Analysis

Porter's value chain analysis framework allows to identify and evaluate primary and secondary activities of the firm, in order to weight the value brought by each one of them. Hence, *the firm is profitable if the value it commands exceeds the costs involved in creating the product* (Porter, 1998, pp.38). The detailed description and subjacent calculations of Skypro's value chain are presented in the **exhibit 5**.

In what concern to Skypro's value creation process, in the primary activities, the biggest costs belong to the operation activities. Even though Skypro does not possess any factories, it bears large costs of goods of the final products that are produced by the manufacturers and then sold. Furthermore, marketing and advertising activities, which represent 5.3% of total value brought, and also support activities such as technology development and procurement are the ones to be stressed. Other activities, as accounting services, are outsourced since the firm is able to perform these activities more effectively by subcontracting.

Observing in detail, the value creation of the company starts with inbound logistics. Skypro operates in two modalities. In one hand, it chooses the manufacturers which use their own raw

materials to produce and deliver the final product directly to Skypro. On the other hand, it orders, receives and stores the inputs for the footwear, such as leather, delivering it to the manufacturers which transform them into the final product. The second modality is hardly used by the company, and it mainly stores the final product after the order is completed. In this stage, the quality control is tightly performed in order for the product to correspond to the specific quality and safety parameters. Thus, in this step of the value chain, the company engages in the outbound logistics, while warehousing the footwear stocks for corporate and individual clients. The Logistics Clerk manages the stock and the products that are packaged, expedited and delivered to the clients via distributors.

In what concerns to the sales activity, the average price for B2C clients is 97.56€ while average cost of production per unit is of 25.58€. Hence, Skypro retains around 74% as margin value (72.00€). The B2B segment presents smaller margins ($\pm 38\%$ average for man e woman shoes) and also smaller revenues ($\pm 45\%$ average), but the volume of sales and the large contracts rewards for it.

Furthermore, support activities as procurement are of greatest importance for the company, since the suppliers of the final product and of the raw materials have a great impact on the overall cost and quality of production (*Porter, 1998*). The technology development is, by its turn, the most valuable support activity since it is related to the product and supports the whole value creation chain. It is also considered as the source of Skypro's competitive advantage towards the competitors.

Overall, Skypro's Value chain analysis indicates that it should further continue with the product customization in order increase, even more, the value brought to the consumer and to secure its leading place among the competition.

III – Target market prospects

Criteria for Russian market attractiveness – Key facts

The Russian market is one target of Skypro for further expansion in Eastern Europe and there it is a justifiable choice. Russia has been considered as one of the most fast-growing countries in the world and it is currently experiencing a shift to a more market-based and globally integrated economy, facilitating the entrance for new businesses. However, the country economic freedom and risk ratings still position Russia as a mostly unfree and risky country for business (see **Exhibit 6**). Moreover, nowadays, Russian economy is manifesting signs of stagnation due to the consequences of the imposition of sanctions and retaliatory embargo on the importation of many products from European countries and the outflow of capital abroad applied on Russia during last years. In 2015, country's GDP accounted for 1.3 trillion dollars (-3.7% y-o-y) (*APICCAPS, 2015*) and even though the economy has been stroke by the crisis and the ruble still volatile, the recovery forecasts are uncertain, but positive (*Statista, 2016*). A more detailed macro analysis of the country is presented using PESTLE framework in the **exhibit 7**. In what follows, the overview of the Russian footwear and airline markets is presented.

Thus, in what specifically concern to the footwear market, in 2015 Russia imported USD\$ 2.2 million being the 13th biggest footwear importer in the world, with 23% imports of leather footwear. (*APICCAPS, 2015*). Overall, during 2015, the footwear market grew 11%, up to USD\$ 11.6 billion (*Euromonitor International, 2016*). According to APICCAPS analysis on the retail players in the industry, the largest one is *CentrObuv* («Центробувь») with more than USD\$ 730 million of turnover in 2015. This retail chain is present all over the country, but it does not target the comfort footwear segment. The next biggest player is the chain *Kari* («Кари») with more almost USD\$ 370 million turnover during the same year. Once more, this

retailer does not play in a niche market, offering general footwear, clothes and accessories for men, women and kids. Finally, *Ecco*, with approximately USD\$ 240 million turnover, offers comfort footwear and indirectly competes with Skypro.

In what respects to the Russian airline market in particular, it is still marked by the traditional protectionism with local carriers dominating domestic and international operations. Russia secures the spot of one of the most significant domestic markets in Europe, with roughly half of all the routes deployed within the country (*Russia's bear market, 2015 pp. 36*). In a general overview, according to Aeroflot, Russian aviation market is still under pressure, having demonstrated traffic decline of 8.5% y-o-y in 2016 ¹, with domestic flights representing a growth of 7.7% y-o-y in the same period (*Aeroflot Presentation, 2016*). The number of trips per capita was of 0,8, which reveals a significant growth opportunity giving the size of the country, comparing to 3,4 in UK or 2,7 in USA. By 2025, Russia is estimated to reach 1.2 passengers per capita. Finally, more than 92 million passengers were carried by the Russian airlines, which represents -1.2% y-o-y (*Aeroflot, 2015*).

In what concerns to the airports structure, it is relevant to mention that Russia is a 17 million km² country, divided in innumerable regions some of which are greatly dislocated. This means that the airport infrastructure is deeply uneven, in comparison with the main hubs, Moscow and Saint-Petersburg, which processes the majority of the airline traffic. However, the country is expecting to continue receiving large investments in modernization and construction of new airports. Privatization and external investments combination should be the source for the so needed improvements (*Russia's bear market, 2015. 36-40*).

The up stated panorama both brings challenges and opportunities. Recently, several airline companies went bankrupt, giving the chance to others improve their position. This resulted in

¹ Consult PESTLE analysis, Political variable

even further consolidation of the market, dominated by 85% by five airline groups. Among them, *Aeroflot*, the biggest and state owned airline, holder of the 1st place with more than 40% of market quota, *Transaero* – which recently went bankrupt and was integrated in *Aeroflot*, *S7 Airlines* with 14% of market share, *Ural Airlines* with more than 8% and, finally, *UTair Aviation* (see **Exhibit 8**).

It is important to stress that Russian pilots and cabin crews are supplied with uniforms and also footwear as it is required by regulatory rules. Both clothes and footwear are, in general, chosen by the airline, in order to secure the safety and comfort parameters for the cabin crews during the flight. Thus, it is possible to preview a business opportunity for Skypro, which aims to conquer, as clients, the giants of the worldwide aviation. However, it is also important to stress that each airline has a chosen supplier which is entitled to manufacture and supply the uniforms and the footwear for the company's employees.

Exhibit 9 evaluates the size of potential market by estimating the number of pilots and cabin crews of the airlines with more than 1% market share.

SWOT and TOWS analysis

More than understanding what are the opportunities and threats for Skypro in the Russian market, according to the SWOT conceptual framework, it is important to assemble a deeper analysis. Thus, TOWS framework analysis assists in the evaluation of how the company may take advantage of its strengths to maximize the opportunities and minimize the threats in a foreign market. This is crucial in order to perform a situation analysis and preview the possible strategies to be undertaken in order to succeed with the internationalization. It also represents another step towards the best mode of entry choice.

Thus, company's SWOT analysis in the target market is presented below, while the complementary TOWS analysis may be consulted in the **exhibit 10**.

Internal Strengths	Internal Weaknesses
<p>Corporate level: S1 – Adhocracy as organization structure (Cameron and Quinn (1999) S2– Previous experience operating in different foreign markets S3 – Respectable portfolio of clients Product level: S4 – Know-how of footwear making S5 – In-house design of the product S6 – Customization of the product accordingly to the needs of the client S7 – Tight quality control Financial level: S8 – Low fixed costs S9 – Available resources for investment (EXPLORER)</p>	<p>Corporate level: W1 – Dependence on the suppliers and distributors W2– Dispersion of activities through several subcontractors in different areas Product level: W3 – Unpatented product technology W4 – Lack of creativity in design (all models are simple and similar) Financial level: W5 – No economies of scale</p>
External Opportunities	External Threats
General	General
<p>Market level: O1 – Possibility of entering latent industries Client level: O2 – Circular needs of the clients in purchasing new sets of uniforms and footwear O3 – Increasing social need for comfort footwear Product level: O4 – Increasing usage of social networks and on-line shopping around the world and possibility of e-promotion of the product</p>	<p>Market level: T1 – New entrants threat T2 – Innumerable competitors Product level: T3 – Easily replicable technologies T4 – Ensemble of substitute products T5 – Low cost products dominance</p>
Country specific	Country specific
<p>Market level: RO1 – Large size potential market and growth perspective RO2 – Possibility of entering other latent industries after the phase of establishment (ex: Russia has a mandatory army service) RO3 – Presence of several footwear fairs in the main hubs of the country Client level: RO4 – Mandatory uniforms and footwear supply to airlines’ employees RO5 – Existing partnership with <i>LSG SkyChefs</i></p>	<p>Market level: RT1 – Economic downturn and ruble depreciation RT2 – High entry barriers and tax charges RT3 –China as the dominating supplier RT4 – High willingness to spend Client level: RT5 – Lack of trust in the new partner RT6 – High bargaining power RT7 – Already existing contracts and long-term relationships with local suppliers</p>

Russian Footwear industry drivers of rivalry

Porters' Five Forces external environment analysis

Industry rivalry – Moderate

According to Euromonitor International 2016 report, the footwear market in Russia is highly fragmented and there is no evidence of concentration, specially giving the current economic environment. “*The leading 100 companies in the industry accounted for just a 22% share of overall apparel and footwear value sales*” and the biggest retailers list remains unchanged, led by Adidas Group, Inditex Group and Centrobuv TD ZAO, which was already mentioned as the biggest local player. Hence, one may infer that the competitors are highly diversified and the product differentiation is not significant. The majority of players take a stake in the middle price segment. Nevertheless, it is previewed that competition will intensify in the near future. Local retailers will need to find new ways of remaining competitive, by investing in e-commerce platforms and compete with international retailers which enter the marketplace, as conditions become tougher due to the economic slowdown in the country. Another aspect to be taking into account is the shade footwear market, which supplies the country with counterfeited production. This is one major source of competition and also price fluctuation.

However, it is more important to observe Skypro's most immediate competitors, footwear manufacturers, listed according to the airline they are supplying. Hence, Aeroflot and its subsidiaries buy the uniforms from *BTC Group*, a holding operating in the specialized clothes and footwear segment. In 2013, according to *RBC Media Group* rating of the 30 most rapidly growing companies in Russia, BTC reached RUB 21.4 billion in revenues (approximately USD\$ 370 million in 2013), being the only one supplying the country armed forces. *Ural Airlines* has a contract with *Technoavia*, which plays in the same segment as BTC group and it is present in 78 regions.

Threat of entry - Low

In what concern to the foreign brand entering the Russian market, there are several legal, political and financial constraints, as explicated in the PESTLE analysis. Furthermore, economies of scale of local and foreign retailers also represent a barrier for entry. However, Russian footwear market is still penetrated by foreign retailers according to trade experts, as six new footwear brands entered it in 2015 (*Euromonitor International, 2016*). In what refers to the specific niche market Skypro is competing in, the threat of new entrants is residual as the cost of technologies of design and production establishment is quite significant.

Threat of substitution – Low

The propensity of the buyers to substitute is quite relevant for the footwear market. As the product is poorly differentiated and the prices practiced are similar, the customers may easily switch from brand to another. In what concerns to the B2B segment, in which Skypro is determined to present their product, the threat of substitution is significantly lower. This happens giving the long-term contracts associated to the supply and also due to the specific features of the footwear which has, in the first place, a comfort purpose with no rationale of substitution by fashion reasons.

Buyers Power – High

Buyers bargaining power, in this footwear market is particularly low regarding the amount of the offer and the high availability of the substitute products. Thus, customers are highly sensitive to price change, up to the point of postponing the purchase due to unfavorable economic conditions and rise in price (*Euromonitor International, 2016*). However, when taking into account the direct Skypro's clients – large airline companies - their buying and bargaining power is remarkably high.

Suppliers Power -Moderate

In what concerns to suppliers, the biggest part of production imported to Russia is manufactured by low-cost suppliers as China or Turkey, which bargaining power is rather low. However, the specialized footwear manufacturers, by their turn, use expensive production technologies to manufacture a high-end quality product which entitles them with extra bargaining power. Nevertheless, Skypro is not going to acquire any new suppliers, maintaining the current local ones in Portugal.

VI - Internationalization Prospects:

Overview

Before defining the mode of entry to the Russian market, it is important to understand what is the proposition of Skypro to the local clients and who they potentially are.

In the first place, in what concerns to the product proposition, it should be stressed that Skypro commercializes specialized corporate footwear, which only can be customized accordingly to the airline the company is supplying. Hence, the models are predefined and the colors available for the clients are either black or dark blue. Further customization of the models makes part of the prospects of Skypro.

Secondly, in what respects the potential clients, Skypro already has experience in retailing its production in the Russian market, to the airline *Transaero* which recently got bankrupt. This preliminary contact with the market was established by the partnership with *LSG SkyChefs*, the biggest inflight service company belonging to the *Lufthansa Group*. This relationship may be of great use to Skypro once it carries a prospect of supplying to *Rossiya Airlines* (*primary source*) from the *Aeroflot Group*. Hence, in the B2B segment, the targeted clients should be the major Russian airlines.

Lastly, and according to the research, it is advisable for Skypro not penetrate the B2C segment immediately. According to Euromonitor International 2016, *the online retailing of footwear became more sophisticated in 2015*, as the leading brands had opened online platforms in order to improve consumers' online shopping experience and engender customer loyalty. However, Skypro's product offer is yet not prepared to meet the tastes and needs of the Russian customers.

Mode of entry:

Having in mind the corporate characteristics of Skypro and a recent large investment in the USA subsidiary *Skypro LLC*, it would be wise to choose, for the Russian market, a mode of entry with high degree of flexibility and low capital requirements. Thus, several alternatives can be rejected right at the beginning. In the first place, equity contracts (investment entry mode) such as joined ventures, since they require large investments and carry a high degree of commitment. Secondly, an option like direct export (export entry mode) is not also the most suitable one for the present situation because Skypro is a generally unknown brand in Russia and it operates in a niche market. Thus, direct export would generate unsolicited order excess. Furthermore, licensing – a strategy which also would not be viable since Skypro do not possess any patents on the product technology. This would make the company vulnerable to potential opportunistic behavior of the licensee which may be harmful for the sustaining of competitiveness abroad. Thus, for instance, a contractual agreement should be the wisest choice as long as it does not require large human nor financial resources mobilization.

Therefore, to enter the B2B segment Skypro should:

- Establish a supply contract with a chosen airline by means of a partner (*LSG SkyChefs*).

Hence, in what concerns to the B2B segment, it would be reasonable for Skypro to establish a contract with one or more companies from the Aeroflot group. As long as it is the largest Russian airline there is a prospect of ultimately supplying all the five subsidiaries. *LSG*

SkyChefs, a company which also is a supplier of Aeroflot, would be a great partner in this endeavor, since Skypro already has partnered with it the past and may make use of its reputation among the airlines. However, it must not be forgotten that Aeroflot holds the *BTC Group* as the local manufacturer and supplier of uniforms and footwear with whom the company has a contract and which prices are adjusted to the Russian market. Thus, it would be wise not to propose a uniforms but only footwear supply, taking into account the special characteristics of Skypro product and its capacity to deliver to the comfort issue of the crews. Even though Aeroflot crews pay by themselves by the footwear used to work, the company establishes the official supplier, which in this case, could be Skypro.

Even though it is recommendable for the company not to target the B2C segment, the on-line store still represents a critical point for public advertising of the company. Thus, the current web-site should be adjusted and translated in order to disclose the brand towards other potential B2B customers and also occasional individual clients which may belong to latent industries.

Implementation Plan

The next step after mode of entry definition is the drawing of the implementation plan of the internationalization, which contain a more quantitative approach to the resources required to accomplish the internationalization. Thus, the 4P's and the 4M's analysis will be further presented.

The 4P's model

In what concern to the **product**, while supplying the Russian market, it would be advisable to Skypro to expand its product offer into upgraded footwear models, more prepared for severe climatic conditions. Despite all the special features of the footwear, such as temperature control, Russia's dimension is so vast that even domestic flights may occur in regions with very diverse temperatures. Hence, along the whole year the temperature changes are very significant and

range reaching the extremes. The product adjustment is equally desirable in women and men footwear collection and will require time and also testing of new materials such as fur or wool or other components.

Furthermore, in what concerns to the **placement of the product**, and as long as this is a B2B project, Skypro will not place its product in the conventional distribution channels but directly supply it to the partner's storage. Since Skypro is a generally unknown brand in the market, in order to present the product and attract potential customers, the correct **promotion** should be accomplished. In the first place, company's on-line store should be translated to russian and used as place for promotion and display of the product. Furthermore, push marketing strategies should be applied in order to reach other airlines as potential clients. This could be done through direct e-mailing and also personalized marketing or any other similar approach. Moreover, Skypro should also promote its product in fairs and exhibitions which take place several times along the year. Among them, one of the most valuable ones is the exhibition *Obuv' Mir Kozhi* – an especial event directed for the companies aiming to enter the Russian market and to connect with suitable partners. It is a major B2B trade show of shoes and leather products in Russia and it counts with a participation of countless firms which may find interest in Skypro's production (*Obuv' Mir Kozhi*, 2016). Moreover, the fair *MOSSHOES* - a specialized fair of footwear and accessories which takes place four times a year in Moscow. It counts with a participation of more than 350 companies from 20 countries and also represents a valuable opportunity for promotion (*Mosshoes*, 2016)

Finally, in what concerns to the **pricing strategy**, and due to the need in new materials which cause a cost per unit increase, and also taking into account the significant import taxes, the price should be slightly increased. It also should not be forgotten that Russians are willing to pay more for a foreign quality product. Hence, the regular average prices for the B2B segment are of 41.32€ for women and 57.73€ for men (primary source). In order to determine the benchmark

price for the Russian market, it is possible to observe the average prices for footwear established by Skypro's direct competitors, such as *Technoavia*. The average price for men specialized footwear is of ± 4000 RUB and the most exquisite model of comfort footwear in leather and fur reaches 6000 RUB. Thus, the price of men footwear could be raised up to 70€ for B2B. On the other hand, the prices for the women collection could also increase up to 60€.

The 4M's framework – estimating the inputs

After defining a strategy, it is important to estimate the effort required in order to implement it. The 4M's framework estimates the inputs needed in terms of human resources, time and money. It also contains a memo which establishes several targets and goals for the company in the new market. The memo may be consulted in the **exhibit 11**.

Men, Minute and Money

The table below represents the estimated incremental costs of the project in terms of time and money required:

Activity	Time	Money
<i>Partnership establishment</i>		
Reunion with LSG SkyChefs and Aeroflot	Once	$\pm 1000\text{€}$
<i>On- line store optimization</i>		
Hiring a translator	Once	$\pm 300\text{€}$
<i>Promotion</i>		
Participation in the fair – <i>Obuv' Mir Kozhy</i>	Once – 3 days	$\pm 4000\text{€}$
Extra costs – accommodation, plane ticket, visas	Once	$\pm 1500\text{€}$
<i>R&D</i>		
New models development and testing	6 month	$\pm 1500\text{€}$

The estimation of the participation in the fair are discriminated in the **exhibit 12**.

Furthermore, having in mind the implementation strategy, in what concerns to **human resources** Skypro has no need to admit new employees. The contact with the partner may be done through the usual scheme, especially because Skypro already partnered with *LSG SkyChefs* before. However, Skypro will need to contract a Russian translator for the translation of the on-line store.

Financial projections

The financial forecasts for this project are presented below in the **exhibit 13**. The results obtained are incremental and thus they represent only the benefits and the costs associated to the internationalization project. It is important to stress that R&D costs are not included in the calculations since they are considered as sunk cost and not as incremental costs. The forecasts take in account the inputs needed in the already presented 4M's framework and based on the assumption that the project will last for four years, beginning in 2018. Three scenarios - the expected one, the optimistic and the pessimistic - are built on different sets of circumstances.

Conclusions and Recommendations:

Finally, it is imperative to say that despite the prognoses of recovery of the Russian economy during 2017, Skypro must postpone the entrance to this market unit it truly stabilizes. One also must take into account all kinds of risk associated to the analyzed country and weight the benefit that may be brought by the project against the potential threats identified. It may be recommendable to firstly capitalize on the markets in which Skypro is already present and augment the product variety before debuting in the Russian market. However, it is may also be concluded that this internationalization project could not only be a great endeavor for the company but also bring a positive contribution towards concretization of Skypro's strategic goals.

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